

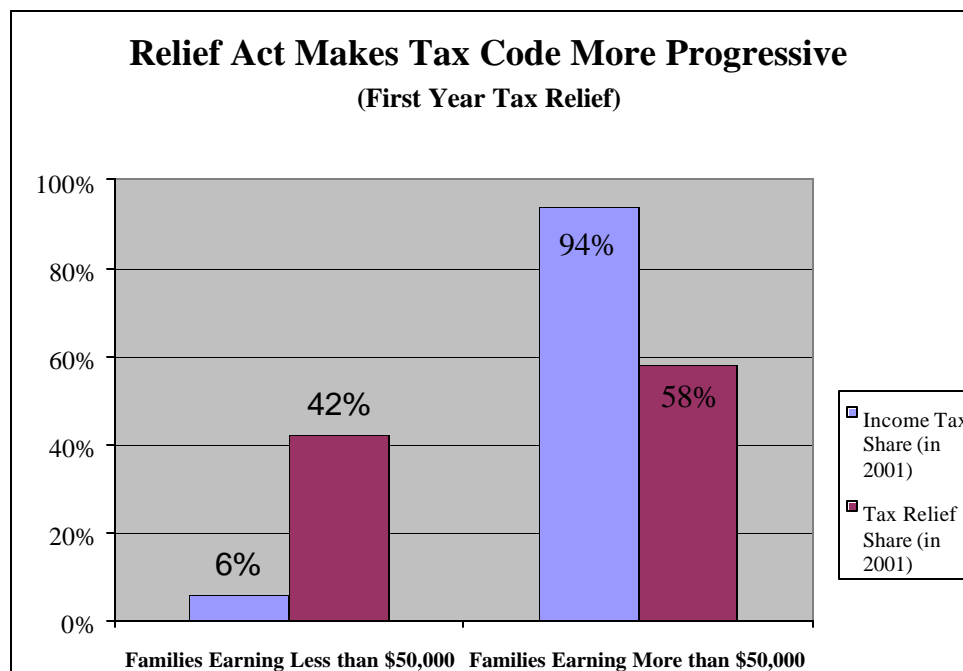


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Relief Act of 2001 Makes Tax Code More Progressive

Tax Cuts for the Rich? Hardly. As demonstrated by the Joint Committee on Taxation, the tax relief package being marked up by the Finance Committee today shifts the burden of income taxes away from middle- and lower-income families and towards upper-income taxpayers. Here are the main points:

- The Relief Act of 2001 will make the tax code more progressive – wealthy taxpayers will pay a larger portion of the income tax pie after it's fully phased in.
- The Relief Act increases tax benefits for low- and moderate-income families earning \$30,000 or less. Under the Relief Act, these families will receive \$16.8 billion more in refundable tax credits than they pay in income taxes this year.



- Under the Relief Act, families who pay only 6 percent of all income taxes receive 42 percent of the benefits in the first year, while families who shoulder 94 percent of the burden get only 58 percent.
- Meanwhile, under the Relief Act those American families earning over \$200,000 (representing about 3 percent of the population) will pay exactly half of all income taxes this year. (They pay 48 percent under current law.)

A Tale of Two Taxpayers

The income tax code is quickly dividing America into two classes of citizens – those who make a profit from the tax code and those who shoulder the burden of paying for all non-Medicare and Social Security government services, as well as for these refundable tax benefits.

While the Relief Act of 2001 makes important steps towards reducing the overall tax burden and making the tax code simpler – including death tax repeal, marginal rate reduction, and marriage penalty relief – it also continues to shift the burden of paying for government to fewer and fewer families.

The following table compares the current tax code burden with the Relief Act benefits in 2001 and 2006. It shows that, even after most of the rate reduction is phased in, benefits are still skewed towards those income groups that have little or no income tax liability – resulting in an increased burden on those groups that pay the bulk of income taxes:

	2001		2001		2006	
	Income Tax Burden	% of Total	Tax Relief in Mark	% of Total	Tax Relief in Mark	% of Total
Less than \$10,000	\$ (6)	-1%	\$ 0.1	0%	\$ 0.1	0%
\$10,000 to \$20,000	\$ (10)	-1%	\$ 3.5	7%	\$ 4.3	4%
\$20,000 to \$30,000	\$ 9	1%	\$ 6.2	13%	\$ 8.0	7%
\$30,000 to \$40,000	\$ 28	3%	\$ 5.7	11%	\$ 7.7	7%
\$40,000 to \$50,000	\$ 39	4%	\$ 5.4	11%	\$ 7.3	6%
\$50,000 to \$75,000	\$ 112	11%	\$ 11.0	22%	\$ 17.5	15%
\$75,000 to \$100,000	\$ 119	12%	\$ 7.6	15%	\$ 16.0	14%
\$100,000 to \$200,000	\$ 237	24%	\$ 7.9	16%	\$ 28.4	25%
\$200,000 and over	\$ 478	48%	\$ 2.2	4%	\$ 26.0	23%
	\$ 1,006		\$ 49.6		\$ 115.3	

What About Payroll Taxes?

Critics of this analysis will argue that most families pay more in Social Security and Medicare payroll taxes than in income taxes, so it is not fair to limit the distribution tables solely to income taxes.

But both Social Security and Medicare offer benefits as well as taxes, and any analysis of the distribution effects of federal payroll taxes is incomplete if it doesn't take into account the progressive nature of these benefits.

Moreover, Republicans, including President Bush, have offered to move forward on both Medicare and Social Security reforms, including a call for wage earners to gain increased control over their payroll taxes in the form of Personal Retirement Accounts. Critics of the current payroll tax burden should be encouraged to join in these efforts.

Meanwhile, the bill before the Senate offers income and death tax relief, and only should be analyzed in that light.

Tax Relief for Every Income Taxpayer

The Relief Act of 2001 makes the income tax code more progressive. While it reduces overall marginal tax rates for all income taxpayers, the rates and tax credits for lower-income taxpayers (and subsidies to those workers with no tax liability) are proportionately larger and are phased in faster than the tax relief for families that pay most of the income taxes.

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